

ORIGINAL

OPEN MEETING



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MEMORANDUM
RECEIVED

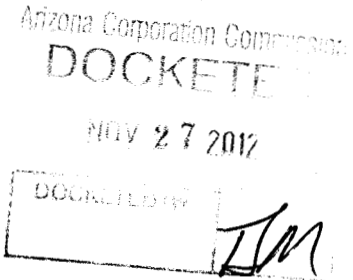
TO: THE COMMISSION

2012 NOV 21 P 12:03

FROM: Utilities Division

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: November 27, 2012



RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION TO MODIFY ITS
POWER SUPPLY ADJUSTMENT MECHANISM PLAN OF ADMINISTRATION
(DOCKET NO. E-01345A-11-0224)

On July 27, 2012, Arizona Public Service Company ("APS") filed an application to modify its Power Supply Adjustment ("PSA") Plan of Administration to allow recovery of the cost of carbon dioxide ("CO₂") allowances. Decision No. 73183 (May 24, 2012) held the APS rate case docket open for the purpose of allowing APS to request this modification.

The PSA provides for the recovery of fuel and purchased power costs to the extent that actual costs differ from the amount recovered through APS's base rates. The PSA Plan of Administration describes how the PSA works and lists the specific Federal Energy Regulatory Commission ("FERC") accounts that contain the costs allowed to be recovered through the PSA.

APS currently makes off-system sales to entities in California and other areas. Off-system sales are sales of electricity to entities outside of the area for which APS has a generation service obligation. The differences between the cost of the off-system sales and the revenue received from the off-system sales are credited to the PSA to the benefit of APS customers.

Beginning in 2013, California will be implementing a greenhouse cap and trade program under regulations administered by the California Air Resources Board. As a result, APS may have to purchase CO₂ allowances to cover greenhouse gas emissions that California associates with electricity imported into California. For APS, the cost of the allowances would be incurred only for the purpose of making off-system sales into California.

The PSA Plan of Administration currently allows for margins on the sale of sulfur dioxide ("SO₂") allowances to be recorded in Account 411 O&M. However, based on a discussion with a FERC accountant, APS believes that the cost of CO₂ allowances should be recorded in FERC Account 509 Allowances which is currently not specified in the PSA Plan of Administration. Without netting the cost of the CO₂ allowances against the gross revenues received from the off-system sales into California, APS would expect to lose money and therefore would not make the sales.

Specifically, APS is requesting the following modifications to the Plan of Administration:

- Page 1, under General Description, add the italicized phrase in the following sentence:

"It also provides for refund or recovery of the net margins from sales of emission allowances, to the extent the actual sales margins deviate from the base rate amount of (\$0.000001) per kWh and for recovery of mandated carbon emission allowance costs when it is economical to incur those costs in making short-term off-system sales."

- Page 7, add the following definition:

"Mandated Carbon Emission Allowance Costs - The costs incurred in purchasing allowances to meet legal requirements, beginning in 2013, that electricity from resources which emit carbon must be accompanied by carbon emission allowances equal to the amount of carbon emitted in generating the electricity (recorded in FERC Account 509 - Allowances)."

- Page 11, under Accounts, add the following account:

"509 Allowances"

- Schedule 2, add new Footnote 2:

"² Includes costs associated with the purchase of mandated carbon emission allowances."

- Schedule 3, add the italicized phrase below to Footnote 5:

"⁵ Includes native load and off-system fuel and purchased power costs, including the costs of acquiring mandated carbon emission allowances, ..."

Recommendations

Staff recommends approval of the proposed modifications to the PSA Plan of Administration, as discussed herein.

Staff also recommends that a footnote be added to page 11, after 509 Allowances, that states "or any successor FERC account used to record the costs of purchasing carbon emission allowances."

Staff further recommends that APS notify the Commission and all parties to this Docket at least 90 days prior to applying this amended Plan of Administration provision to sales made in

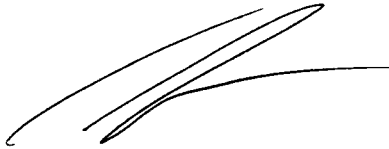
THE COMMISSION

November 15, 2012

Page 3

any jurisdiction other than California. If a party to this Docket objects to such expansion of application of the instant Plan of Administration modification within 30 days of APS's notification, the Commission may schedule a process to resolve the issue. Pending resolution of the objection, APS would not apply the amended Plan of Administration language to sales in such non-California jurisdiction.

In addition, Staff recommends that APS file in Docket Control a PSA Plan of Administration consistent with the Decision in this matter within 10 days of the effective date of the Decision.

A handwritten signature in black ink, appearing to read "Steve M. Olea", with a long horizontal stroke extending to the right.

Steve M. Olea
Director
Utilities Division

SMO:BEK:sms\MAS

ORIGINATOR: Barbara Keene

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE

Chairman

3 BOB STUMP

Commissioner

4 SANDRA D. KENNEDY

Commissioner

5 PAUL NEWMAN

Commissioner

6 BRENDA BURNS

Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF ARIZONA PUBLIC SERVICE)
10 COMPANY TO MODIFY ITS POWER)
11 SUPPLY ADJUSTMENT MECHANISM)
12 PLAN OF ADMINISTRATION.)
13

DOCKET NO. E-01345A-11-0224

DECISION NO. _____

ORDER

14 Open Meeting
15 December 6, 2012
16 Phoenix, Arizona

17 BY THE COMMISSION:

18 FINDINGS OF FACT

19 1. Arizona Public Service Company ("APS") is certificated to provide electric service
20 as a public service corporation in the State of Arizona.

21 2. On July 27, 2012, APS filed an application to modify its Power Supply Adjustment
22 ("PSA") Plan of Administration to allow recovery of the cost of carbon dioxide ("CO₂")
23 allowances. Decision No. 73183 (May 24, 2012) held the APS rate case docket open for the
24 purpose of allowing APS to request this modification.

25 3. The PSA provides for the recovery of fuel and purchased power costs to the extent
26 that actual costs differ from the amount recovered through APS's base rates. The PSA Plan of
27 Administration describes how the PSA works and lists the specific Federal Energy Regulatory
28 Commission ("FERC") accounts that contain the costs allowed to be recovered through the PSA.

...

4. APS currently makes off-system sales to entities in California and other areas. Off-system sales are sales of electricity to entities outside of the area for which APS has a generation service obligation. The differences between the cost of the off-system sales and the revenue received from the off-system sales are credited to the PSA to the benefit of APS customers.

5. Beginning in 2013, California will be implementing a greenhouse cap and trade program under regulations administered by the California Air Resources Board. As a result, APS may have to purchase CO₂ allowances to cover greenhouse gas emissions that California associates with electricity imported into California. For APS, the cost of the allowances would be incurred only for the purpose of making off-system sales into California.

6. The PSA Plan of Administration currently allows for margins on the sale of sulfur dioxide ("SO₂") allowances to be recorded in Account 411 O&M. However, based on a discussion with a FERC accountant, APS believes that the cost of CO₂ allowances should be recorded in FERC Account 509 Allowances which is currently not specified in the PSA Plan of Administration. Without netting the cost of the CO₂ allowances against the gross revenues received from the off-system sales into California, APS would expect to lose money and therefore would not make the sales.

7. Specifically, APS is requesting the following modifications to the Plan of Administration:

- Page 1, under General Description, add the italicized phrase in the following sentence:

"It also provides for refund or recovery of the net margins from sales of emission allowances, to the extent the actual sales margins deviate from the base rate amount of (\$0.000001) per kWh *and for recovery of mandated carbon emission allowance costs when it is economical to incur those costs in making short-term off-system sales.*"

- Page 7, add the following definition:

"Mandated Carbon Emission Allowance Costs - *The costs incurred in purchasing allowances to meet legal requirements, beginning in 2013, that*

1 *electricity from resources which emit carbon must be accompanied by carbon*
2 *emission allowances equal to the amount of carbon emitted in generating the*
3 *electricity (recorded in FERC Account 509 - Allowances)."*

- 4 • Page 11, under Accounts, add the following account:

5 *"509 Allowances"*

- 6 • Schedule 2, add new Footnote 2:

7 *"² Includes costs associated with the purchase of mandated carbon emission*
8 *allowances."*

- 9 • Schedule 3, add the italicized phrase below to Footnote 5:

10 *"⁵ Includes native load and off-system fuel and purchased power costs, including*
11 *the costs of acquiring mandated carbon emission allowances, ..."*

12 Recommendations

13 8. Staff has recommended approval of the proposed modifications to the PSA Plan of
14 Administration, as discussed herein.

15 9. Staff has also recommended that a footnote be added to page 11, after 509
16 Allowances, that states "or any successor FERC account used to record the costs of purchasing
17 carbon emission allowances."

18 10. Staff further recommends that APS notify the Commission and all parties to this
19 Docket at least 90 days prior to applying this amended Plan of Administration provision to sales
20 made in any jurisdiction other than California. If a party to this Docket objects to such expansion
21 of application of the instant Plan of Administration modification within 30 days of APS's
22 notification, the Commission may schedule a process to resolve the issue. Pending resolution of
23 the objection, APS would not apply the amended Plan of Administration language to sales in such
24 non-California jurisdiction.

25 11. In addition, Staff has recommended that APS file in Docket Control a PSA Plan of
26 Administration consistent with the Decision in this matter within 10 days of the effective date of
27 the Decision.

28 ...

CONCLUSIONS OF LAW

1
2 1. Arizona Public Service Company is an Arizona public service corporation within
3 the meaning of Article XV, Section 2, of the Arizona constitution.

4 2. The Commission has jurisdiction over Arizona Public Service Company and over
5 the subject matter of the application.

6 3. The Commission, having reviewed Arizona Public Service Company's application
7 and Staff's Memorandum dated November 27, 2012, concludes that it is in the public interest to
8 approve modifications to the PSA Plan of Administration, as discussed herein.

ORDER

9
10 IT IS THEREFORE ORDERED that the proposed modifications to the Arizona Public
11 Service Company Power Supply Adjustment Plan of Administration, as discussed herein, are
12 approved.

13 IT IS FURTHER ORDERED that a footnote shall be added to page 11 of the Plan of
14 Administration, after 509 Allowances, that states "or any successor FERC account used to record
15 the costs of purchasing carbon emission allowances."

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1 IT IS FURTHER ORDERED that Arizona Public Service Company shall notify the
2 Commission and all parties to this Docket at least 90 days prior to applying this amended Plan of
3 Administration provision to sales made in any jurisdiction other than California. If a party to this
4 Docket objects to such expansion of application of the instant Plan of Administration modification
5 within 30 days of Arizona Public Service Company's notification, the Commission may schedule a
6 process to resolve the issue. Pending resolution of the objection, Arizona Public Service Company
7 shall not apply the amended Plan of Administration language to sales in such non-California
8 jurisdiction.

9 IT IS FURTHER ORDERED that Arizona Public Service Company shall file in Docket
10 Control a Power Supply Adjustment Plan of Administration consistent with this Decision within
11 10 days of the effective date of the Decision.

12 IT IS FURTHER ORDERED that this Order shall become effective immediately.

13 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

14
15 _____
CHAIRMAN

COMMISSIONER

16
17 _____
COMMISSIONER

COMMISSIONER

COMMISSIONER

19 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
20 Executive Director of the Arizona Corporation Commission,
21 have hereunto, set my hand and caused the official seal of
22 this Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2012.

23 _____
24 ERNEST G. JOHNSON
25 EXECUTIVE DIRECTOR

26 DISSENT: _____

27 DISSENT: _____

28 SMO:BK:sms\MAS

SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-11-0224

Thomas L. Mumaw
Melissa M. Krueger
Arizona Public Service Company
400 North 5th Street, MS 8695
Phoenix, Arizona 85004

Jeff Schlegel
SWEEP Arizona Representative
1167 W. Samalayuca Dr.
Tucson, AZ 85704-3224

C. Webb Crockett
Patrick J. Black
Fennemore Craig
3003 North Central Ave., Suite 2600
Phoenix, AZ 85012-2913
Attorneys for Freeport-McMoRan and AECC

Kurt J. Boehm
Jody Kyler
Boehm, Kurtz & Lowry
36 East 7th Street, Suite 1510
Cincinnati, OH 45202
Attorneys for Kroger Co.

Daniel Pozefsky, Chief Counsel
Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, AZ 85007-2958

Jeffrey W. Crockett
Brownstein, Hyatt, Farber Schreck, LLP
1 E. Washington St., Suite 2400
Phoenix, AZ 85004
Attorney for Arizona Association of Realtors

Michael A. Curtis
William P. Sullivan
Curtis, Goodwin, Sullivan Udall & Schwab,
P.L.C.
501 East Thomas Road
Phoenix, AZ 85012-3205
Attorneys for the Town of Wickenburg and
Town of Gilbert

John William Moore, Jr.
7321 North 16th Street
Phoenix, AZ 85020

Barbara Wyllie-Pecora
14410 West Gunsight Drive
Sun City West, AZ 85375

Cynthia Zwick
1940 East Luke Avenue
Phoenix, AZ 85016

Timothy M. Hogan
Arizona Center For Law In The Public
Interest
202 East McDowell Road, Suite 153
Phoenix, AZ 85004
Attorney for Western Resource Advocates,
Southwest Energy Efficiency Project,
ASBA/AASBO

Michael W. Patten
Roshka Dewulf & Patten PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, AZ 85004
Attorney for TEP

David Berry
Western Resource Advocates
P.O. Box 1064
Scottsdale, AZ 85252-1064

Bradley Carroll
Tucson Electric Power Co.
One South Church Avenue, Suite UE 201
Tucson, AZ 85701

Michael M. Grant
Gallagher & Kennedy
2575 East Camelback Road
Phoenix, AZ 85016-9225
Attorneys for AIC

1 Gary Yaquinto
2 Arizona Investment Council
3 2100 North Central Avenue, Suite 210
4 Phoenix, AZ 85004

5 Karen S. White
6 Air Force Utility Law Field Support Center
7 AFLOA/JACL-ULFSC
8 139 Barnes Drive
9 Tyndall AFB, FL 32403
10 Attorney for FEA

11 Greg Patterson
12 Munger Chadwick
13 2398 East Camelback Road, Suite 240
14 Phoenix, AZ 85016
15 Attorney for ACPA

16 Nicholas J. Enoch
17 Lubin & Enoch, P.C.
18 349 N. 4th Avenue
19 Phoenix, AZ 85003
20 Attorney for IBEW Locals 387, 640 and 769

21 Lawrence V. Robertson, Jr.
22 Attorney At Law
23 P.O. Box 1448
24 Tubac, AZ 85646
25 Attorney for SWPG/Bowie and
26 Noble/Constellation/Direct/Shell

27 Laura E. Sanchez
28 NRDC
P.O. Box 287
Albuquerque, NM 87103

Jay Moyes
Steve Wene
Moyes Sellers & Hendricks, Ltd
1850 N. Central Ave., Suite 1100
Phoenix, AZ 85004-4527
Attorney for AzAg

Jeffrey J. Woner
K.R. Saline & Assoc., PLC
160 N. Pasadena, Suite 101
Mesa, AZ 85201

Scott S. Wakefield
Ridenour, Hienton & Lewis, P.L.L.C.
201 N. Central Ave., Suite 3300
Phoenix, AZ 85004-1052
Attorney for Wal-Mart

Steve W. Chriss
Wal-Mart Stores, Inc.
2011 S.E. 10th Street
Bentonville, AR 72716-0500

Craig A. Marks
Craig A. Marks, PLC
10645 N. Tatum Blvd., Suite 200-676
Phoenix, AZ 85028
Attorney for AARP

Samuel T. Miller
USAF Utility Law Field Support Center
139 Barnes Ave., Suite 1
Tyndall AFB, FL 32403

Douglas V. Fant
Law Offices of Douglas V. Fant
3655 W. Anthem Way, Suite A-109, PMB
411
Anthem, AZ 85036
Attorney for Interwest Energy Alliance

Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007